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Eight companies go for oil shale leases

By Donna Gray
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Since the Bureau of Land Management announced its oil shale research and development leasing program earlier this month, eight energy companies in Colorado have applied for a chance to make the alternative energy source an economic reality.

The eight, ranging from companies involved in the oil shale boom of the early ’80s to new ventures, are among 19 companies that applied for parcels of public land in Colorado, Wyoming and Utah. The three states hold the world’s largest concentration of oil shale, the equivalent, the BLM says, of 2.6 trillion barrels of oil, 20 times more than the total U.S. oil resource of 116.5 billion barrels.

Exxon Mobile and Chevron Shale Oil Co. have applied for the 160-acre leases, said James Edwards, chief of the solid minerals branch of the BLM state office in Lakewood. Both were key players in the oil shale boom of the late ’70s and early ’80s. Exxon pulled out of its Colony Oil Shale Project on Sunday, May 2, 1982, leaving more than 2,000 people without jobs and precipitating an economic bust that still reverberates in Garfield County.

The BLM has offered the leases for 10 years. During that time, if the companies demonstrate their technology for extracting oil from shale is sound and there is a viable market for the product, they have the option of expanding the holding to 5,120 acres, Edwards said.

“They have to make a showing that the selling (of the product) exceeds the cost to produce it.”

When companies like Exxon and Chevron staked their claims to oil shale in the ’70s, they were backed by hefty government subsidies from the Synthetic Fuels Corp., established by Congress under President Jimmy Carter. Energy companies got the boost to spur them to find alternative sources of crude. Back then, the conventional wisdom was that once crude hit $35 a barrel, oil shale production would be commercially feasible. The price never shot that high nor did the efforts of Exxon and others prove economic.

Now, as crude prices hit $66 a barrel, the federal government is driven by the same fear of a dwindling world supply. Earlier this year, the Department of Energy’s Office of Naval Petroleum and Oil Shale Reserves met with energy companies in Washington, D.C., to discuss the state of oil resources and the need for a strategic plan to develop oil shale as an alternative fuel before oil reserves give out.

In the early 1900s, the federal government set aside thousands of acres in Colorado’s Piceance Basin and the Uintah Basin in Utah as the Naval Oil Shale Reserves to protect what it saw as a strategic energy resource.

The Energy Policy Act of 2005 requires the BLM to begin leasing oil shale tracts for commercial production by August 2007, Edwards said.

The BLM will review the leases with a team of experts from the Departments of Energy and Defense, Edwards said. “We’re shooting to have the leases issued and operations to start next summer.”

In evaluating the proposed technologies, “we’ll want to ask is this someone’s science experiment or will it really work,” he said. Exxon Mobil and Chevron will also try an in-ground heating approach, now being tested by Shell Oil in its Mahogany Research Project in the Piceance Basin.

Since 2000, Shell Oil has been testing an in-ground heating system that will liquefy the shale which it them pumps out on the approximately 20,000 acres it owns in Rio Blanco County. Shell applied for three parcels under the BLM’s research and development leasing program.

“Seventy to 80 percent of the oil shale (in the Piceance Basin) is on federal land, said Jill Davis, spokeswoman for Shell. Shell’s land is near the western lip of the basin, she said. The richest resource is in the center of the basin, owned by the BLM.

"The opportunity to convert (the 160-acre parcel) to 5,120 acres is very important to us," she said. "Once we have the capacity and infrastructure in place then we could upgrade to commercial production. That's why the opportunity to go to the 5,120 acres is important, to be able to do the final phase of research and go commercial on the same acreage."

Shell recently initiated the second phase of its Mahogany Research program, testing a "freeze wall" that sets up a barrier between the heating zone around its well bores and groundwater. It does not expect to go to commercial production before "the end of the decade," Davis said.

Other companies that have applied for leases will use a more traditional room and pillar mining system and a retort process above ground which heats the shale to extract the oil.

"We're also very concerned about their investment capacities. Do these people have the wherewithal to pursue this and clean it up afterwards?" Edwards added.

While the BLM will also take environmental effects into account, "The Secretary of Interior has the discretion with the R and D (parcels) to lease them without environmental regulations as long as they're limited to research and development."

Once companies go to the 5,120-acre commercial parcels, federal environmental laws must be met. Companies will be required to do an Environmental Impact Statement for each commercial parcel, Edwards said.

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